United Nations S/2010/365

Security Council

Distr.: General
8 July 2010

Original: English

Note verbale dated 18 June 2010 from the Permanent Mission of Iraq to the United Nations addressed to the President of the Security Council

The Permanent Mission of the Republic of Iraq to the United Nations has the honour to transmit herewith a letter from H.E. Hoshyar Zebari, Minister for Foreign Affairs of the Republic of Iraq (see annex), together with the quarterly report regarding the action plan and timeline for the transition to successor arrangements for the Development Fund for Iraq, in accordance with Security Council resolution 1905 (2009) (see enclosure). It would be highly appreciated if the present letter and its annex could be circulated to the members of the Security Council and issued as a document of the Security Council.

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Please recycle

Annex to the note verbale dated 18 June 2010 from the Permanent Mission of Iraq to the United Nations addressed to the President of the Security Council

Baghdad, 18 June 2010

In accordance with Security Council resolution 1905 (2009), paragraph 5, which requests the Government of Iraq to report to the Security Council on a quarterly basis and to provide an action plan and timeline for the transition from the Development Fund for Iraq, I have the honour to transmit herewith the second quarterly report of the Government of Iraq (see enclosure). The report provides an assessment of progress against the action plan and oversight improvements.

I should be grateful if you would have the present letter and its enclosure circulated to the members of the Security Council as soon as possible.

(*Signed*) Hoshyar **Zebari**
Minister for Foreign Affairs of the Republic of Iraq

Enclosure

Second quarterly report of the Government of Iraq

Pursuant to paragraph 5 of Security Council resolution 1905 (2009) and further to the letter from the Minister for Foreign Affairs of Iraq dated 18 March 2010 and its annex, the first quarterly report contained in document S/2010/308, and in the light of the observations of the United Nations Secretary-General contained in document S/2010/166, pursuant to paragraph 3 of resolution 1905 (2009), the Government of Iraq would like to state the following:

1. The completed parts of the plan and timetable for the transition to successor arrangements for the Development Fund for Iraq

In its first report the Government of Iraq stated that it would continue with the same mechanism as currently used for depositing revenues from oil export sales into a main account opened with the Federal Reserve Bank of New York (FRBNY) and held by the Central Bank of Iraq (CBI). A separate sub-account will also be opened with the same bank, into which 5 per cent in compensation (or any lower percentage that may be agreed upon later) from the revenues from oil export sales will be transferred automatically. In accordance with the timetable of the plan:

CBI got the approval of FRBNY regarding the CBI accounts to be opened with it through a letter from the president of FRBNY (attachment 1) sent to the Governor of CBI on 19 May 2010. As for the completion of the efforts of the Government of Iraq to determine the available protection for CBI reserves and the Government's fund, to the jurisdiction of the States with which Iraq was planning to open accounts, and the contacts made by the Iraqi authorities either with FRBNY or other banks, the protection provided is not up to the immunities provided by a Security Council resolution under Chapter VII of the Charter of the United Nations. The Government of Iraq will continue its efforts to take the appropriate decision after further contacts with the relevant authorities. The Government of Iraq can determine its position in this regard in its next quarterly report, in the light of contacts with the banks and the agreements reached in regard to the claims inherited from the previous regime.

Agreement was reached with the international audit firm Pricewaterhouse Coopers (PWC) to audit the Development Fund for Iraq for the year 2010. This firm was selected through competitive bidding in which three offers from international audit firms were received. The contract will be signed soon with the Government of Iraq. As indicated on the website of the Committee of Financial Experts (www.cofe-iq.net), the same procedure will be followed next year as well.

2. The status of the debts and the programme of the Government, including the bilateral agreements with countries outside the Paris Club

Bilateral agreements with countries outside the Paris Club. In the first quarterly report it was pointed out that Iraq had succeeded in resolving the debt issues with 55 States outside the Paris Club. There has been no significant progress in this respect with the remaining 13 States, as Iraq is still waiting for their responses and they have neither set a date for signing the agreements nor positively responded to the draft bilateral agreements transmitted to them.

The Government of Iraq is following up on the contacts with those countries in order to reach a settlement acceptable for both parties. In this context, the Minister of Finance of Iraq transmitted confirmation letters on 18 May 2010 to his counterparts in each of the Republics of Turkey, Pakistan, Poland and Brazil suggesting to send official delegations from the Ministry of Finance together with its international financial adviser to those countries during June and July 2010 to discuss details of debt settlement in accordance with Paris Club provisions. The Government of Iraq is awaiting those States' reply to the proposal of the Minister of Finance. The Security Council will be kept updated with the results. It should be noted that the claims of some of the members of the Gulf Cooperation Council constitute the largest proportion of those debts. Despite the continuous efforts of the Government of Iraq and decisions of the Arab Summits, the latest held in Sirte, Libyan Arab Jamahiriya, on 28 March 2010, to deal with these debts, Iraq has not so far received the desired response and an intervention from brotherly and friendly States may be helpful to expedite settlement of these debts or the signing of such agreements.

The commercial creditors. The Government of Iraq commented in its first quarterly report on this subject and on the programme adopted for the settlement of their claims. On that basis, three British companies agreed recently to enter into negotiations to sell their entire debts in cash for 10.25 per cent of the original debt and the negotiations are expected to be completed soon. These companies are:

1. Mass Property and Investment Ltd.
2. Universal Plant & Machinery Ltd.
3. Millars Projects Ltd.

But the concern of the Government of Iraq on this subject is that there is a possibility that a number of commercial creditors did not submit their claims and, therefore, that the Government did not know how many claimants there are in this category. While the Government of Iraq emphasizes its commitment to resolving all the debts and claims inherited from the previous regime and continues to address them until they are offset, it looks to the international community to continue to provide assistance in this regard and, in particular, advice on how to identify commercial creditors who did not register their claims.

The remainder of the United Nations oil-for-food programme. With reference to paragraphs 20 and 21 of the Secretary-General's report (S/2010/166), the Government of Iraq would like to point out that the letters of credit which the United Nations requested to be settled of the oil-for-food programme amounted to 65 as of 30 April 2010. Due to the importance for the Government of Iraq of addressing this issue, the ministerial committee formed under a Council of Ministers' order in 2010, chaired by the Deputy Prime Minister for Economic Affairs and the relevant parties, was authorized to take decisions about these letters of credit. The committee has completed consideration of all outstanding letters of credit and decided to pay out 26 of them. As for the rest of them, the committee has not found documented receipt of goods related to those letters of credit. Therefore, these companies do not deserve to receive those amounts.

Other claims inherited from the previous regime. The competent Iraqi authorities have drafted a legal agreement on a package deal to be concluded between the Government of Iraq and the Government of the concerned State. This

agreement is currently before the Iraqi legal authorities for approval, and then the Government of Iraq will be able to address this issue and close it completely.

3. Assessment of the progress made in strengthening financial and administrative control of the current Development Fund for Iraq

(a) Forty-one ministries have completed their structural charts, and some of them have been referred to the Council of Ministers for approval. As for laws, two laws that relate to the Ministry of Immigration and Displacement and the Ministry of Planning and Development Cooperation were adopted in the period between our first and second quarterly reports after being published in the official gazette, in addition to what was stated in our previous report.

(b) The Ministry of Finance has a valid job description and work is going on to develop it.

(c) After the issuance of the law on the Federal Board of the Civil Service, the committee formed within the Council of Ministers still interviews persons of proven competence and ability to fill positions and administrate the newly established body that is charged with the task of selecting and developing the administrative staff in Iraq.

(d) The Ministry of Finance has gathered together and unified the financial instructions and it will have them distributed to all State ministries and entities for implementation during the next month.

(e) The completion of the comprehensive oil metering and calibration system: the Ministry of Oil submitted a report on the status of the system as at 31 May 2010 (attachment 2). The delay in establishing some of these meters compared with the approved plan was the result of some administrative procedures relating to imports and post-contracting financing, and the Ministry is trying to overcome these obstacles. In order to highlight the very transparent orientation of the oil industry, Iraq has joined the Extractive Industries Transparency Initiative (see attachment 3, which contains comments from international entities and refers to the positive procedures taken by the Ministry of Oil in this regard).

(f) A high-level committee was formed in order to follow up on Iraqi funds abroad, and is trying to recover them through legal procedures, including resort to the Security Council Committee established pursuant to resolution 1518 (2003), and establishing a relevant database. This Committee was able to obtain a court order to recover 300 million dollars in Switzerland and 25 million euros in France, in addition to recovering other fixed assets.

(g) Completion of the final financial statement of the State for 2008: the final financial statement of the State is under way and is expected to be discussed by the Financial Audit Board during July 2010.

(h) Follow-up and clearance of the observations for 2007 and 2008 of the external auditor for the Development Fund for Iraq: through continuous meetings with the heads of audit teams of the Board of Supreme Audit working in the concerned entities, and their representatives, a significant number of these observations were cleared and the causes for the remaining observations made by the international audit firm not being settled were identified. The status of clearance of those observations is the following:

Cleared observations	*Observations under clearance*	*Still valid observations*	*Total*
159	98	34	291
55%	34%	11%	100%

It is to be noted that the details of the still valid observations are being followed up and will be cleared after the issuance of the present report, but the nature of most of those observations requires structural reform for their clearance combined with their being addressed at the legal and administrative levels, as mentioned above.

Attachment 1

FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

WILLIAM C. DUDLEY
PRESIDENT

May 19, 2010

Governor Sinan Al-Shabibi
Central Bank of Iraq
Al-rasheed Street
Baghdad, Iraq

Re: Development Fund for Iraq

Dear Governor Shabibi:

Your May 12, 2010 letter describes the creation of the Development Fund for Iraq in 2003 and notes that the Central Bank of Iraq has continuously held DFI assets in an account here denominated in U.S. dollars since then. The Federal Reserve Bank of New York is agreeable to continuing this arrangement after December 31, 2010. We also note your interest in possible currency and geographic diversification. Please let us know if we can be of assistance in those matters.

We have followed with interest the efforts taken by Iraq to put in place successor arrangements for the management of the Development Fund for Iraq and a suitable oversight regime to replace the International Advisory and Monitoring Board. Perhaps more importantly, we have noted Iraq's success in resolving debts and claims inherited from the previous regime.

Please let us know if there are additional ways that we might contribute to the success of these promising developments.

Very truly yours,

William C. Dudley

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Attachment 2

Implementation of plan to install meters and transfer ownership as of 31 May 2010

	1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	
Company	*Existing meters/meters installed prior to plan/ temporary meters*	*Number of meters provided for under the updated plan*	*Number of meters provided for under the updated plan installed as of 31 March 2010*	*Total meters as of 31 March 2010 (1+3)*	*Meters to be installed in April and May 2010*	*Actual number of meters installed in April and May 2010*	*Variance in April and May 2010 (5-6)*	*Total number of meters installed as of 31 May 2010 (4+6)*	*Observations and reasons for variance*
1. North Oil Company	10	188	—	10	—	—	—	10	10 meters are installed at Feshkhabur metering station. A request was made for calibration equipment, flow meters and software. 78 storage tanks have been calibrated and the company is waiting for the contractor to provide the calibration tables. The company took delivery of 16 radar metering devices and expects to have them installed by the end of September 2010. The company continues to issue purchase orders and will begin installation of equipment beginning in November 2010.
2. South Oil Company	24	137	14	38	—	—	—	38	12 meters are installed at Khawr al-Amayyah port, 1 on the strategic pipeline, 1 on the pipeline to Basrah refinery and 24 at Basrah oil station.
3. Maysan Oil Company	7	65	12	19	—	—	—	19	7 temporary meters were installed because calibration devices and flow meters were not available. The temporary meters will remain in use until receipt of equipment ordered.
4. North Refineries Company	—	239	187	187	1	4	—	191	—
5. Midlands Refineries Company	—	592	68	68	20	16	4	84	Variance can be attributed to lack of funds, delays by the Trade Bank of Iraq in issuing a letter of credit, delays in order fulfilment and delays in delivery.
6. South Refineries Company	8	137	1	9	13	7	6	16	7 temporary meters were installed and will remain in use until receipt of equipment ordered. One meter was installed prior to implementation of the updated plan and will remain in use until receipt of equipment ordered.

	Company	1 Existing meters/meters installed prior to plan/temporary meters	2 Number of meters provided for under the updated plan	3 Number of meters provided for under the updated plan installed as of 31 March 2010	4 Total meters as of 31 March 2010 (1+3)	5 Meters to be installed in April and May 2010	6 Actual number of meters installed in April and May 2010	7 Variance in April and May 2010 (5-6)	8 Total number of meters installed as of 31 May 2010 (4+6)	Observations and reasons for variance
7.	North Gas Company	—	69	27	27	—	—	—	27	—
8.	South Gas Company	—	20	3	3	3	—	3	3	Variance can be attributed to lack of funds, delays by the Trade Bank of Iraq in issuing a letter of credit, delays in order fulfilment and delays in delivery.
9.	Oil Pipelines Company	—	410	360	360	10	—	10	360	
10.	Oil Products Distribution Company	—	2 992	695	695	85	—	85	695	
11.	Gas Filling Company	—	49	3	3	12	4	8	7	16 bridge balances were received and are expected to be installed in June 2010.
	Total	**49**	**4 898**	**1 370**	**1 419**	**144**	**31**	**116**	**1 450**	

Note: There is no variance in respect of installation of meters at ports through which exports flow. In fact, progress has been made in that regard, as noted in column 1, rows 1 to 3. The variances noted in the table apply to companies engaged in delivery of product within Iraq, and those variances are attributable to security procedures and the approvals required for delivery of goods contracted to Iraq.

Attachment 3

Summary report: Iraq Companies Workshop

Iraq Companies Workshop

LOCATION, DATES	Dubai, 6-7 2010.
PARTICIPANTS	About 50 individuals representing the following companies: Occidental, ExxonMobil, Shell, Lukoil, Petronas, ENI, Total, Petrobras, Nippon Oil, BP, CNPC, Sinochem, Sonangol, PetroVietnam Oil Supply and Trading, UNIPEC Asia, China ZhenHua Oil, and ConocoPhilips. See photo attached. The meeting was chaired by Iraq EITI National Coordinator, Alaa El-Deen, with also participation from the Head of the SOMO, the Iraq Oil Marketing Company. Eddie Rich, Deputy Head of the EITI International Secretariat presented on the international aspects of the EITI and on how to report. Graham Lee from Global Witness came to present on the benefits for companies of engaging with civil society. Apologies received from Deputy Oil Minister, Yahia Said from the World Bank, and Statoil.
SUMMARY	The Iraq EITI hosted a seminar for all its oil operators and buyers in Dubai on 6-7 June. Around 20 companies from Asia, Europe, America, and Africa, participated in the workshop which, for many of them, was a first introduction to the EITI process. The Iraq EITI will be the first to include the publication of revenues from the export sale of oil and thus engages oil traders in the process. The meeting also saw ExxonMobil, CNPC, and Shell, elected to the IEITI Council. This is the first time a Chinese company is to be represented on an EITI multi-stakeholder group. Iraq plans to produce their first EITI report early in 2011. **A first opportunity for EITI to engage with many of the above companies.** The meeting afforded an induction for these companies and it was an impressive from Alaa to engage companies at the national level in a deeper way than I have seen in any other implementing country. **The first case of a Chinese company being elected to a multi-stakeholder group.** Following a free and fair election as observed by Global Witness and Eddie Rich, ExxonMobil, CNPC, and Shell were elected to the IEITI Council. Statoil also stood, but since they were not there they were not elected.

Trading contracts will in future include a requirement to comply with IEITI requirements. The The Head of SOMO read out some wording which was agreed by all.

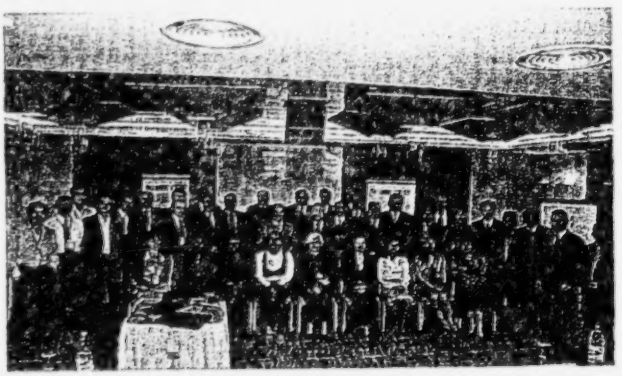
Company-by-company disaggregation of payments will be a challenge in Iraq. Most companies resisted company-by-company publication of export purchases. They feel that agreed prices are even more sensitive than the operational payments, and even with total purchase figures (rather than pri per barrel), disaggregated figures are too open to analysis. If the Governme want to push EITI good practice they may wish to mandate disaggregated figures, though this is not required by EITI.

The IEITI is still awaiting the MDTF funding to be released.

Next steps:

- There will be a similar civil society constituency meeting in Baghdad at end of this month. Eddie Rich will strongly encourage participation from Revenue Watch Institute and Publish What You Pay International.
- The first IEITI Council meeting should take place in July. The EITI International Secretariat and other international stakeholders are willin provide training to Council members alongside that meeting.

Eddie Rich
Deputy Head
and Regional Director for Anglophone/Lusophone Africa and Middle East
EITI International Secretariat



Extractive Industries Transparency Initiative
CHAIRMAN'S OFFICE

Mr Alaa Mohie El-Deen
National Secretary
Iraq Extractive Industries Transparency Initiative
Bagdad
Iraq

19 March 2010

THE EITI WELCOMES IRAQ AS AN EITI CANDIDATE COUNTRY

Dear Sir,

Following your letter of 23 January, I am delighted to announce that the Board of the Extractive Industries Transparency Initiative (EITI) has accepted the application of Iraq to become a Candidate country. The Board made its decision at a meeting on 10 February in Oslo. They warmly welcomed Iraq into the initiative and highly praised the commitment of the government and the work done so far. Each country has two years from becoming a candidate to complete Validation to become an EITI Compliant country. Iraq is thus requested to complete compliance and validation by 9 February 2012.

To support this process, we will continue to provide technical assistance and training as appropriate to the members of your stakeholder group and yourself. I also understand that the World Bank, the Government of the United States, Revenue Watch Institute, and others, are willing to support your efforts. I understand that the next step is to formally constitute your EITI Stakeholder Council and proceed with the production of a first report. The Board also warmly welcomed the proposed incremental expansion of the scope of the IEITI to include domestic use of oil and gas, the value of non-cash export transactions, and signature bonuses.

I wish you the greatest success in implementing the EITI.

Yours sincerely,

Dr. Peter Eigen
Chairman

cc. Hon Ali Al-Alaq, General Secretariat of Ministers Council
H.E. Hussein Al-Shahristani, Minister of Oil

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Published on *Extractive Industries Transparency Initiative* (http://eiti.org)
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Iraq recognized as an EITI Candidate

Iraq [1] has become a Candidate country [2] within the Extractive Industries Transparency Initiative (EITI), the global standard for improved transparency in the oil, gas and mining sector. This was announced today by the EITI International Board after its meeting in Oslo earlier this week.

Iraq had at the end of 2008 115 billion barrels of proven oil reserves, making it the country with the third largest reserves in the world and 9.1% of the world's total reserves. The government of Iraq has committed to publish all the revenue from export sales from its oil sector. Equally, international companies buying oil from Iraq will publish what they have paid to the government. Overseen by a multi-stakeholder group with representatives from national government, companies and civil society, these figures will then be reconciled and published in an EITI Report.

One month ago, Noori Al-Maliki, Prime Minister of Iraq launched Iraqi EITI at a launch conference in Baghdad. Together with the Minister of Oil, Dr Hussain Al-Shahristani, they committed the government of Iraq to hold itself to account to its people, and the companies with whom it deals.

At the launch of the Iraqi EITI, Peter Eigen, Chair of the EITI, sent a greeting which included the following: "With well managed oil resources, the future of the Iraqi people could be very bright. For those of us who have spent our career tackling the root causes of corruption and conflict, and for the whole international community which follows Iraq closely, the Government's plan to implement the EITI is a massive signal of Iraq's determination to build a brighter future."

On the announcement of Iraq's candidature, EITI Board Member Julie McDowell, the Head of Sustainable and Responsible Investment at Standard Life Investments, said "The institutional investment community will welcome the news that Iraq is an EITI Candidate country. The high standards of accounting and reporting inherent in the EITI are attractive to investors seeking to minimise risk, by ensuring greater openness and a more level playing field in the business environment."

EITI Board Member Reidar Gjaerum, Senior Vice President of Statoil, said "With its vast oil reserves, Iraq has now a opportunity for economic and societal development. Improving transparency and governance is necessary if the resources are to lead to growth and sustainability. The international oil companies in Iraq like Statoil welcome the commitment of the government of Iraq to conduct all our transactions with them in a transparent manner."

Iraq now has two years to implement the EITI standard and undergo an EITI Validation [3] in order to become an EITI Compliant country [4].

For further information about EITI implementation in Iraq, contact Regional Director Eddie Rich [5] at the EITI International Secretariat.

- Candidate Country
- Iraq

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